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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Presentation of David L. Sharp

President/CEO

VIRGIN ISLANDS TELEPHONE CORPORATION

to

FEDERAL-STATE JOINT BOARD

on

UNIVERSAL SERVICE IN INSULAR AREAS

September 13, 1996

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List A B C D E

Good morning...thanks for the opportunity to address the Joint Board. In my brief remarks, I would like to convey to the Joint Board the magnitude of the importance of Universal Service support to the provision of universal telecommunication service to the people of the U.S. Virgin Islands, and our concern to prevent any erosion of the existing support mechanisms, which we think have worked well over the years.

Let me start with the bottom line. Today our monthly residential service charge is about \$18.50. Without universal service support, we estimate that the monthly charge would have to immediately increase to about \$30, an increase of more than sixty (60) percent. Without universal service support, our penetration rate, which today is about 88 percent, would go dramatically lower.

Why is universal support needed in the Virgin Islands? Principally for two reasons. First, the Virgin Islands are a remote insular Territory of the United States with unique characteristics that cause our costs to be much higher than average. We face the following facts of life in the Virgin Islands:

- ▶ we must operate our network over three major islands and many smaller islands, requiring expensive duplication of network facilities and personnel;
- ▶ even within an island, our mountainous terrain and random development patterns make it expensive to provide basic telephone services;
- ▶ the rocky, volcanic geology of the islands make it largely impractical for us to bury cable and even aerial construction is difficult and expensive;

- ▶ our plant is constantly exposed to the hostile elements of a tropical environment, decreasing the service life and therefore increasing life cycle costs;
- ▶ all telephone plant and outside labor must be transported over 1,000 miles of ocean, in small uneconomical lots, which is enormously expensive;
- ▶ the Virgin Islands are in the middle of a hurricane belt, and we have been hit by three major hurricanes in the last year alone--I was unable to give you an advance copy of my remarks today because I was too busy responding to the affects of Hurricane Hortence over the last few days. Our exposure to hurricane damage is so high that we are no longer able to obtain meaningful insurance against hurricane losses.

These factors explain why it costs more for us to provide basic telephone service than other carriers.

A second reason why we need universal service support is the characteristics of our population. As I understand it, the 1996 Telecommunications Act emphasizes the importance of affordable basic telephone service. In the Virgin Islands, we have a population of about 100,000 with a significant portion living below national standard averages. Twenty-five (25) percent of the population receives some kind of government assistance. Most of the private sector jobs are low skill and low wage occupations like sales clerks or security guards, so disposable income is only sixty (60) percent of the level on the U.S. mainland. Despite lower wages, Virgin Islanders must pay more for basic necessities such as food and housing, which cost thirty (30) percent more than on

the U.S. mainland. Simply put, our residents have less money than the average U.S. citizens for buying basic telephone service.

Given that costs are much higher than average, and affordability is much lower than average in the Virgin Islands, we are proud of our penetration rate of eighty-eight (88) percent. And with the help of universal service funds, our basic monthly rate has declined twenty-three (23) percent since we first began receiving those funds, in spite of additional costs due to major hurricane damage. In our view, additional universal service support is needed, not less, to raise our penetration rate closer to the nationwide standard of ninety-four (94) percent.

We strongly oppose any decrease in universal service support levels. We also oppose suggestions that the Joint Board should use models or proxies to administer this crucially important support mechanism. There is no model or proxy that I am aware of that can accurately reflect the unique cost characteristics of insular territories like the Virgin Islands. If the use of models or proxies is a backdoor way of reducing universal support, then we oppose them.

Also, I share the Commission's skepticism about relying upon an assumed relationship between population density and loop costs. If there is such a relationship, it does not apply to the Virgin Islands, where we have higher than average population density and higher than average loop costs. I am told that the Commission, in its' recent Interconnection Order, did not set loop cost proxies for insular areas due to similar doubts.

In conclusion, we feel that the universal service support systems currently in place have worked well. Both service penetration and affordability have been enhanced under them. We trust that the Joint Board will carefully consider the full ramifications to any change to this vital and successful program.